2022

H1 FINANCIAL REPORT

DEXIA
CRÉDIT
LOCAL

DCL

CONTENTS

MANAGEMENT REPORT[1]

FINANCIAL HIGHLIGHTS

CONSOLIDATED INCOME STATEMENT - ANC FORMAT		
(in EUR million)	H1 2021	H1 2022
Net banking income	-38	343
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-161	-171
GROSS OPERATING INCOME	**-199**	**172**
Cost of credit risk	47	6
NET RESULT BEFORE TAX	**-152**	**178**
Income tax	-52	-16
NET INCOME	**-204**	**162**
Minority interests	0	0
NET INCOME, GROUP SHARE	**-204**	**162**

BALANCE SHEET KEY FIGURES – ANC FORMAT		
(in EUR million)	31/12/2021	30/06/2022
TOTAL ASSETS	**97,786**	**76,979**
of which		
Cash and central banks	9,753	10,300
Financial assets at fair value through profit or loss	9,280	5,353
Hedging derivatives	662	1,548
Financial assets at fair value through other comprehensive income	1,902	1,736
Financial assets at amortised cost - Debt securities	34,553	29,339
Financial assets at amortised cost - Interbank loans and advances	17,306	9,528
Financial assets at amortised cost - Customer loans and advances	23,860	18,954
TOTAL LIABILITIES	**92,158**	**71,178**
of which		
Financial liabilities at fair value through profit or loss	10,116	5,496
Hedging derivatives	16,714	10,949
Interbank borrowings and deposits	6,656	4,324
Customer borrowings and deposits	8,819	8,490
Debt securities	49,406	41,430
TOTAL EQUITY	**5,628**	**5,801**
of which		
Equity, Group share	5,628	5,801

(1) The data in this management report are unaudited.

INTRODUCTION

The rise in interest rates, which started in 2021, continued in the first half of 2022 with positive consequences for Dexia Crédit Local. Combined with the reduction of the portfolios, the strong decrease of cash collateral and fair value items resulted in a decrease of more than EUR 20 billion of the balance sheet total over the half-year, at EUR 77 billion as at 30 June 2022. Moreover, the reduction of Dexia Crédit Local's funding requirements increases its resilience to a potential liquidity stress, in a geopolitical context which remains tense.

Dexia Crédit Local's net income for the first half of 2022 amounted to EUR +162 million, driven in particular by the positive contribution linked to the reform of benchmark indices (IBOR).

Dexia Crédit Local continues to post robust solvency ratios, well above the minimum required for the year 2022 within the framework of the Supervisory Review and Evaluation Process (SREP).

1. SIGNIFICANT EVENTS AND TRANSACTIONS

A. Progress on the Group's resolution

Simplification of the international network

United States

Since the transformation of Dexia Crédit Local's New York branch in 2020, the Group's footprint in the United States consists of a representative office and Dexia Holdings Inc. which owns Dexia Financial Products Holdings Inc. and FSA Global Funding Ltd. As at 30 June 2022, the balance sheet of these entities amounted to EUR 2.3 billion. It is mainly composed of securities on the assets side, guaranteed investment contracts (GICs) and intra-group funding on the liabilities side.

Dexia Crédit Local has undertaken the restructuring of these entities, in particular the sale of a portfolio of 56 GIC contracts to an institutional investor in the United States. The project was launched in 2021 and Dexia Crédit Local has made significant progress in obtaining the consents of all third parties necessary to transfer this portfolio. As at 31 December 2021, 21 contracts had been transferred, representing an outstanding amount of USD 57 million. This transfer process continued in the first half of 2022 with the assignment of 23 additional contracts representing an outstanding amount of USD 239 million. The project is expected to be completed in the second half of 2022.

Evolution of the Dexia Crédit Local operating model

As part of its long-term strategic thinking, aimed at reassessing the trajectory of its orderly resolution over the next few years, during the first half of 2022 the Group continued the in-depth studies begun in 2021 and undertook structural actions concerning the reshaping of its operating model, in particular the outsourced services and their implementation methods.

In this respect, Dexia Crédit Local signed a contract with Citi, its historical partner for clearing in US dollars, to extend the management of payments to all currencies, thus enabling it to simplify its cash management. The switchover of clearing services to the euro has been effective since June 2022. The project will continue with the gradual transfer of clearing operations in other currencies.

Dexia Crédit Local also signed a contract with Arkéa Banking Services in the first half of 2022 for the back-office processing of loans. Implementation is planned for the second half of 2023. This new stage in Dexia Credit Local's operational transformation will enable it to benefit from a service tested and recognised by other institutions, the development of outsourced services being at the heart of Crédit Mutuel Arkéa's strategy. For Dexia Crédit Local, this is in line with the objective of constantly seeking to optimise its costs and processes, and to control its operational risks in activities which are still complex but with increasingly low volumes.

Finally, the Dexia Group's Board of Directors also approved the launch of a tender offer for the management of the market back office.

High market volatility and slower pace of asset disposals

After a year 2021 characterised by favourable market conditions, in particular due to the intervention of central banks and European budgetary support programmes, the high volatility observed on the markets since the outbreak of the conflict in Ukraine slowed the pace of asset sales in the first half of 2022.

Dexia Crédit Local nevertheless continued to implement the asset disposal programme validated by the Board of Directors in July 2019 by seizing the opportunities which arose during the half-year.

Thus, at the end of June 2022, the asset portfolios were down by EUR 1.6 billion compared to the end of December 2021, thanks to EUR 0.8 billion of natural amortisation and EUR 0.8 billion of disposals and early redemptions, one third of which related to loans and two thirds to bonds.

During the first half of the year, 85% of the assets sold or redeemed early were denominated in euros. The assets sold have an average life of about nine years.

Through the disposals made, Dexia Crédit Local notably reduced its concentration risk on the Japanese public sector and the Republic of Portugal.

Moreover, in the first half of 2022, some fifty operations were the subject of early redemption or restructuring, including “complex” operations (loans indexed on structured indices, revolving credit), thus contributing to the continued simplification of the commercial portfolio.

At the end of June 2022, Dexia Crédit Local has reached the target volume of disposals which was set by the Board of Directors in July 2019, at a cost 35% below the allocated budget. In order to pursue the objective of reducing portfolios, the Dexia Group’s governance bodies decided to extend the programme, aiming in particular at reducing operational risk through the sale of client swaps and undrawn credit lines.

To recall, Dexia Crédit Local has no direct exposure to Ukraine or Russia, or any exposure to the Russian rouble (RUB) or the Ukrainian hryvnia (UAH).

B. Prudential capital requirements applicable to Dexia Crédit Local for 2022

On 29 October 2021, the ACPR informed Dexia Crédit Local that the total capital requirement of 11.25% on a consolidated basis was maintained in 2022. This level includes a minimum capital requirement of 8% (Pillar 1) and an additional capital level of 3.25% (P2R - Pillar 2 requirement) which must be covered by at least 56.25% of Common Equity Tier 1 capital and 75% of Tier 1 capital.

The temporary easing measures taken by the European Central Bank in April 2020, in the form of the relaxation of the capital conservation buffer and the Pillar 2 guidance, remain in force in 2022. The High Council for Financial Stability has also decided to maintain the level of countercyclical buffer at 0% in 2022 and to increase it to 0.5% from the second quarter of 2023. The Bank of England has announced an increase in the countercyclical buffer to 1% from 13 December 2022.

Including the impact of the countercyclical buffer on UK exposures, estimated at 0.6%, Dexia’s capital requirement will be 11.25% in the first 11 months of 2022 and 11.85% in December 2022.

On 5 February 2021, the ACPR also confirmed to Dexia the maintenance of a tolerance which allows it to deduct from its Common Equity Tier 1 regulatory capital the economic impact of remedying a breach of the large exposure ratio. This exemption continues to apply until further notice.

C. Reform of the benchmark indices (IBOR)

In order to improve the reliability and transparency of short-term interest rates, a reform has been initiated at a global level aiming at replacing these indices with new risk-free rates such as ESTR (EUR), SOFR (USD) or SONIA (GBP).

Being exposed to IBOR indices, mainly in EUR, USD and GBP, through its financial instruments, Dexia Crédit Local is impacted by this reform. A large number of these financial instruments have already been modified to reflect the new rates, either through the replacement of the reference interest rate or through the insertion of fall-back clauses, specifying the replacement modalities in case of termination of a reference interest rate.

A steering committee monitors the market and the various developments relating to this reform in order to anticipate as well as possible the consequences of the transition to the new reference rates, and to manage the stock of existing contracts affected by this reform. Dexia Crédit Local also carried out legal analyses of the contracts concerned by the reform, analyses of the financial impacts linked to the replacement of reference rates and the necessary modifications from an operational point of view.

During the year 2021, Dexia Crédit Local mainly focused its work on the transition of contracts indexed on GBP LIBOR, JPY LIBOR, CHF LIBOR and EONIA, taking into account the cessation of these indices respectively on 1 and 3 January 2022.

As at 31 December 2021, Dexia Crédit Local had finalised almost all the transition of contracts on indices ending at that date. The balance concerned contracts for which the terms of transition to the new reference rates had been fixed in 2021 and for which the migration took place in the first half of 2022.

During the first half of 2022, Dexia Crédit Local continued its work with the elaboration of the transition strategy for its instruments indexed on the USD LIBOR, taking into account the end of June 2023 for the termination of the index. However Dexia Crédit Local has not made any changes to the contracts concerned to date.

As at 30 June 2022, in application of the amendments to IFRS 9 and IAS 39 on the reform of reference interest rates[1], the transition of fair value hedging derivative contracts indexed mainly on GBP LIBOR generated a positive impact on the consolidated statement of income of EUR +329 million. This amount is in line with the estimate communicated by Dexia Crédit Local in the 2021 annual report and is recorded in the accounting volatility elements. This impact results from the revaluation, on the basis of the SONIA curve, of the fair value of the hedged risk following its redefinition. It corresponds to the reversal of the GBP/SONIA LIBOR accounting ineffectiveness stock at the time of transition. The alignment of the fair value hedges to the new risk-free benchmark rate removed the volatility arising from the GBP LIBOR/SONIA rate risk and the associated interest rate hedge accounting ineffectiveness.

The impact of the future transition of USD LIBOR indexed instruments on Dexia Crédit Local's consolidated accounts cannot be estimated at this stage.

2. HALF-YEARLY RESULTS H1 2022

A. Presentation of the Dexia Crédit Local condensed consolidated financial statements as at 30 June 2022

Going concern

The Dexia Crédit Local condensed consolidated financial statements as at 30 June 2022 have been prepared in accordance with the going concern basis of accounting in accordance with IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the resolution of the Dexia Group, developed in Appendix 1 to this half-yearly financial report.

B. Dexia Crédit Local consolidated results H1 2022

The net income Group share was EUR +162 million as at 30 June 2022, against EUR -204 million at the end of June 2021.

Over the half-year, net banking income amounted to EUR +343 million, including:

- The net interest margin, which amounted to EUR +34 million and corresponds to the cost of carrying assets as well as the bank's transformation result. It wa up by EUR 12 million compared to 30 June 2021, mainly due to the decrease in cash collateral, induced by the rise in interest rates.
- Net commissions of EUR -5 million.
- Net gains or losses on financial instruments at fair value through profit or loss, which amounted to EUR +320 million. They include in particular EUR +329 million income related to the transition of fair value hedging derivatives contracts indexed on GBP LIBOR in the framework of the benchmark reform (cf. Significant events and transactions section of this half-yearly financial report). This item also includes an unfavourable impact (EUR -59 million) on fair value hedging inefficiencies, mainly related to the tightening of credit spreads on Currency Basis Swaps. Funding Value Adjustment (FVA), Credit Value Adjustment (CVA) and Debit Valuation Adjustment (DVA) show a positive variation (EUR +23 million), as well as the evolution of the value of assets classified at fair value through profit or loss (EUR +12 million)
- Net gains or losses on financial instruments at amortised cost for EUR -18 million, related to asset disposal programmes.
- Net income from other activities of EUR 12 million, mainly related to reversals of provisions on French structured loans.

At EUR -171 million, costs were up slightly compared to 30 June 2021. In addition to staff costs, they included an impact of EUR -15 million, mainly related to restructuring and transformation costs within the context of the Group's resolution, as well as an amount of EUR -61 million for taxes and regulatory contributions. The contribution to the Single Resolution Fund increased by EUR 8 million compared to the previous year, following the Single Resolution Board's revision of its assumptions on the volume of European deposits.

The cost of risk for the first half of 2022 remained slightly positive at EUR +6 million as at 30 June 2022 and is mainly composed of:

- a reversal of collective provisions for a net amount of EUR +10 million. This positive impact results from the update of the macroeconomic scenario used for the assessment of expected credit losses under IFRS 9, from the increase in interest rates and from the evolution of the portfolio (rating changes, disposals, natural depreciation). In a prudent approach, the updated macroeconomic scenario incorporates the potential consequences of the conflict in Ukraine and higher energy prices;
- an increase in specific provisions for a net amount of EUR -4 million, mainly linked to the increase in the provisioning rate of the Tunisian sovereign exposure from 51% to 54%.

The tax charge was EUR -16 million.

(1) Phase 2 as from 1 January 2022.

3. EVOLUTION OF THE BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION OF DEXIA CRÉDIT LOCAL

A. Balance sheet and solvency

Half-yearly balance sheet evolution

As at 30 June 2022, the Dexia Crédit Local consolidated balance sheet total amounted to EUR 77 billion, compared to EUR 98 billion as at 31 December 2021, i.e. a decrease of EUR 21 billion, mainly driven by the rise in interest rates.

On the assets side, the decrease of the balance sheet is explained, at a constant exchange rate, by the very strong decrease of fair value items (EUR -10.3 billion) and of posted cash collateral (EUR -9.6 billion) and, to a lesser extent, by the reduction of the asset portfolio (EUR -1.6 billion).

On the liabilities side, the evolution of the balance sheet is mainly reflected, at a constant exchange rate, by the decrease of fair value items and cash collateral received (EUR -12.8 billion) and by the reduction of the market funding stock (EUR -8.4 billion).

Over the half-year, the impact of exchange rate variations on the evolution of the balance sheet was not significant.

Solvency

As at 30 June 2022, Dexia Crédit Local's total capital amounted to EUR 5.9 billion, against EUR 5.5 billion as at 31 December 2021. This improvement is attributable to the net profit of the half-year (EUR +162 million).

Two significant items are deducted from the regulatory capital, in line with the requirements of the European Central Bank (ECB):

- the theoretical loss amount corresponding to the remediation of the large exposures ratio which amounted to EUR -29 million, down by EUR 45 million compared to the amount deducted as at 31 December 2021 as a result of the actions undertaken by Dexia to reduce its concentration[1];
- the amount of irrevocable payment undertakings (IPC) to resolution funds and other guarantee funds, which amounted to EUR -79 million.

Furthermore, following the on-site inspection on credit risk carried out in 2018, the ECB issued a number of recommendations. As a consequence, Dexia deducted from its prudential equity an amount of EUR -35 million as a supplement for specific provisions.

The additional value adjustments taken into account in regulatory capital within the framework of the Prudent Valuation Adjustment (PVA) amounted to EUR -9 million as at 30 June 2022, against EUR -173 million as at 31 December 2021.

PRUDENTIAL EQUITY

(in EUR million except where indicated)	31/12/2021	30/06/2022
Common Equity Tier 1	5,489	5,825
Total Capital	5,545	5,881
Risk-weighted assets	20,115	16,970
Total Capital ratio	27.6%	34.7%[1]

(1) This ratio includes the positive net result of the half-year.

RISK-WEIGHTED ASSETS

(in EUR million)	31/12/2021	30/06/2022
Credit risk	18,529	15,271
Market risk	986	849
Operational risk	600	850
TOTAL	**20,115**	**16,970**

(1) Cf. Dexia Press Releases of 5 February and 26 July 2018, available at *www.dexia.com*.

The Debit Valuation Adjustment (DVA) amounted to EUR -32 million, compared to EUR -37 million at 31 December 2021.

Finally, the impact of the mitigation to 25% of the effect of the increase in the level of expected credit loss provisions due to the application of IFRS 9 (static phase-in) amounted to EUR +44 million as at 30 June 2022.

As at 30 June 2022, risk-weighted assets amounted to EUR 17 billion against EUR 20.1 billion at the end of December 2021, of which EUR 15.3 billion for credit risk, EUR 849 million for market risk and EUR 850 million for operational risk.

Taking these elements into account, Dexia Crédit Local's Total Capital ratio amounted to 34.7% as at 30 June 2022, against 27.6% at the end of 2021, a level higher than the minimum required for the year 2022 within the framework of the Supervisory Review and Evaluation Process (cf. Significant events and transactions section of this half-yearly financial report).

B. Evolution of the liquidity situation of Dexia Crédit Local

The rise of interest rates, which began in 2021, continued in the first half of 2022 with positive consequences for Dexia Crédit Local. Indeed, the net cash collateral posted by Dexia Crédit Local to its derivative counterparties showed a strong decrease of EUR 8.5 billion over the half-year and stood at EUR 10.5 billion as at 30 June 2022. Combined with the reduction of portfolios, this decrease in net cash collateral resulted in a significant decrease of EUR 8.3 billion in Dexia Crédit Local's funding requirements over the half-year, to EUR 53.3 billion as at 30 June 2022. Given this favourable development, Dexia Crédit Local's long-term issuance activity was limited to one successful public transaction launched in January 2022 for a total amount of GBP 750 million.

In terms of funding mix, secured funding amounted to EUR 9.9 billion as at 30 June 2022 and government-backed funding represented 78% of outstanding funding, or EUR 41.8 billion. Dexia Crédit Local's liquidity reserve amounted to EUR 12.8 billion, of which EUR 11.7 billion in cash. Dexia Crédit Local has no longer had access to European Central Bank refinancing since 1 January 2022, and this has mechanically reduced the proportion of reserves which can be mobilised in the event of stress. The eligible securities were partly used to raise secured funding and partly deposited on the EUREX and RepoClear platforms to reconstitute liquidity reserves.

Dexia Crédit Local continues closely to monitor the geopolitical situation in Eastern Europe and its impact on the financial markets. At this stage, Dexia Crédit Local has not observed any deterioration in the short-term guaranteed debt market or in the secured funding market. Moreover, Dexia Crédit Local has a liquidity reserve calibrated to enable it to face stressed market conditions.

CREDIT RISK

For the methodological description of the credit risk management framework, please refer to the 2021 annual report.

As at 30 June 2022, Dexia Crédit Local's credit risk exposure amounted to EUR 64 billion, compared to EUR 73 billion at the end of December 2021. This decrease is mainly due to the impact of rising interest rates on assets classified at fair value and, to a lesser extent, to asset sales and natural depreciation of the portfolio.

The exposures are mainly split between loans and bonds for EUR 31 billion and EUR 30 billion respectively.

The majority of exposures are concentrated in the European Union (67%), the United Kingdom (21%) and the United States (5%).

The exposure to France includes deposits placed with the Banque de France as part of liquidity management. These deposits amounted to EUR 10.3 billion as at 30 June 2022.

EXPOSURE BY GEOGRAPHIC REGION

(in EUR million)	31/12/2021	30/06/2022
France	19,528	18,517
Italy	16,335	14,629
United Kingdom	18,116	13,751
United States and Canada	4,075	3,529
Spain	3,869	3,268
Portugal	3,381	2,611
Japan	2,873	2,301
Belgium	1,629	1,564
Australia	1,169	1,086
Germany	743	1,388
Central and Eastern Europe	643	482
Other countries	732	950
TOTAL	**73,093**	**64,076**

As at 30 June 2022, exposures remain mainly concentrated on sovereigns (38%) and the local public sector (37%), taking into account the historical activity of Dexia Crédit Local. The local public sector portfolio was down 17% and the sovereign portfolio was down 7%. Moreover, the exposure to financial institutions amounted to EUR 4.8 billion, mainly composed of repos and bonds.

EXPOSURE BY CATEGORY OF COUNTERPARTY

(in EUR million)	31/12/2021	30/06/2022
Sovereigns	25,825	24,094
Local public sector	28,128	23,390
Project finance	5,921	4,876
Corporate	4,507	4,824
Financial institutions	5,815	3,879
Monolines	1,254	1,241
ABS/MBS	1,160	1,130
Other	483	642
TOTAL	**73,093**	**64,076**

The average credit quality of Dexia Crédit Local's portfolio remained high, with 91% of exposures rated Investment Grade as at 30 June 2022.

EXPOSURE BY CATEGORY OF COUNTERPARTY (INTERNAL RATING SYSTEM)

	31/12/2021	30/06/2022
AAA	20.5%	23.1%
AA	5.0%	5.3%
A	19.9%	19.9%
BBB	46.1%	43.0%
Non Investment Grade	7.3%	7.3%
D	0.6%	0.5%
Not Rated	0.6%	0.9%
TOTAL	**100%**	**100%**

(1) Including supranationals, Australia.

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES (AS AT 30 JUNE 2022)							
(in EUR million)	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
France	18,517	3,649	1,258	1,636	0	11,530	317
Italy	14,629	6,498	52	100	0	7,962	0
United Kingdom	13,751	6,555	4,710	485	1,128	0	874
Spain	3,268	2,445	491	49	0	282	0
United States	3,247	1,268	1,053	595	2	278	49
Portugal	2,611	500	31	0	0	2,080	0
Japan	2,301	2,096	0	205	0	0	0

GROUP SECTORIAL EXPOSURE PER RATING (AS AT 30 JUNE 2022)								
(in EUR million)	Total	AAA	AA	A	BBB	NIG[1]	D	No rating
Sovereigns	24,094	13,271	0	734	10,048	0	41	0
Local public sector	23,390	1,428	2,129	5,878	9,907	3,876	135	37
Project finance	4,876	0	0	474	3,499	744	158	0
Financial institutions	4,824	0	172	3,925	716	2	0	9
Corporate	3,879	0	0	544	3,314	20	0	1
Monolines	1,241	0	0	1,191	49	0	0	0
ABS/MBS	1,130	0	1,100	2	0	28	0	0
Other	642	98	0	0	12	0	0	532
TOTAL	**64,076**	**14,796**	**3,402**	**12,749**	**27,545**	**4,670**	**334**	**579**

(1) Non Investment Grade.

Dexia Crédit Local has implemented a close monitoring of the most fragile counterparties in its portfolio, targeting the most exposed counterparties by geographical area and/or by sector of activity. In particular, the uncertainties linked to the current geopolitical and macroeconomic context are likely to lead to deterioration in the credit quality of counterparties to which Dexia Crédit Local is exposed. The main developments and highlights for these sectors and countries in the first half of 2022 are commented in the following paragraphs.

Dexia Crédit Local commitments on sovereigns

Dexia Crédit Local commitments on sovereigns are essentially concentrated on France, Italy and, to a lesser extent, Portugal.

Following the invasion of Ukraine by Russia, commodity prices have risen sharply, fuelling inflation and weighing on household and market confidence. The war and sanctions against Russia and Belarus are also fuelling the surge in energy prices. In the euro area, inflation in May jumped to a record 8.1%.

Against this backdrop, the European Central Bank's (ECB) monetary policy is moving towards a tightening. Rising interest rates could pose challenges for highly indebted states.

Finally, the eurozone economy has seen its growth revised downwards from an estimated 1.3% to 0% for the second quarter of 2022 and from 4.0% to 2.6% for the year 2022.

Italy

The Italian sovereign exposure amounted to EUR 8 billion as at 30 June 2022. Dexia Crédit Local confirmed its internal rating at BBB-/Stable outlook, in line with the ratings assigned by the main rating agencies. Italy's significantly higher public debt is expected to decrease only very gradually due to still large budget deficits and rather timid long-term growth. Italian bond yields have risen sharply since the ECB announced the end of its market purchases and its intention to start raising interest rates in July. However, these challenges are tempered by Italy's strong external position, its large domestic investor base and the ECB's planned policy to reduce bond yields in some peripheral countries. In addition, the substantial conditional funds and loans granted to Italy by the European Union should not only improve debt servicing, but also increase the potential growth rate. Political risk remains and weighs on long-term growth prospects.

Tunisia

As at 30 June 2022, Dexia Crédit Local's outstanding commitments in Tunisia amounted to EUR 41 million, entirely on the sovereign. Tunisia was one of the emerging countries hardest hit by the Russian-Ukrainian conflict because of its heavy dependence on food and energy imports from the warring countries. As a result, the budget deficit has been revised upwards. Technical negotiations with the IMF are ongoing. As Tunisia has a large external debt to refinance, the implementation of a new agreement with the IMF is crucial, especially for market confidence. In the absence of strong reforms, public creditors could demand a restructuring of private debt as a condition for further support. As a consequence, Dexia Crédit Local increased the provisioning level of its exposure to the Tunisian sovereign from 50% to 54% as at 30 June 2022.

Dexia Crédit Local commitments on the local public sector

Given Dexia Crédit Local's historical activity as a lender to local authorities, the local public sector represents a significant part of its outstandings, which are mainly concentrated in Western European countries (United Kingdom, Italy, France, Spain) as well as in Japan and the USA.

Main points for attention

- France

  Dexia Crédit Local's exposure to the French local public sector amounted to EUR 3.6 billion as at 30 June 2022.

  Although they were affected by the health crisis in 2020 (increase in intervention and management expenses coupled with a contraction in tariff and tax revenues), French local authorities nevertheless showed a good capacity to adapt overall, enabling them to withstand this shock financially, in particular thanks to the various support and compensation measures deployed by the State. Benefiting from a dynamic economic recovery in 2021, the finances of local authorities have improved significantly. Indeed, the sector's self-financing capacity (gross savings) reached an unprecedented level of EUR 41.4 billion (a higher level than that recorded in the pre-crisis period) and the investment effort made by local authorities against a background of economic recovery is actively continuing. It should be noted that the individual situations of local authorities remain heterogeneous.

  The *départements* in particular have benefited from a strong dynamism in their revenues and have collected EUR 3 billion more in transfer duties on real estate transactions than in 2020, while at the same time regional budgets have benefited from additional room for manoeuvre thanks to a new fraction of VAT, the bases of which have been very dynamic in 2021.

  Similarly, in 2021, the municipal block has reconstituted a self-financing capacity almost equivalent to that of 2019, with a contained increase in expenditure, combined with a marked increase in operating revenue, benefiting from a good dynamic in taxes and duties.

  Despite these good budgetary orientations, the climate remains uncertain for local authorities. On the one hand, a new shock linked to inflation, notably energy, could however halt the post-Covid dynamic and significantly constrain budgets, with a more significant increase in expenditure than in revenue. Furthermore, given the current good financial health of local authorities, the Court of Auditors has indicated that 'the principle of a contribution by the local public sector to the recovery of public finances appears legitimate in view of its financial situation, which could take the form of a new framework for expenditure or a programmed reduction in the timeframe of certain revenues allocated to local authorities. Finally, it is worth recalling the uncertainties linked to the tax reforms currently being implemented and their long-term impacts.

  The health sector has also been severely impacted by the health crisis (cessation of activity, internal reorganisations, crisis management), but has nevertheless benefited from strong support from the State through the implementation of mechanisms to compensate for additional costs and loss of revenue. The State's support for the health sector was also materialised by the signing of the *Ségur de la Santé* agreements, which led in particular to salary increases in health establishments. In addition, the *Ségur* provides for an investment of EUR 19 billion in the health sector.

- United Kingdom

  As at 30 June 2022, Dexia Crédit Local had an exposure of EUR 6.5 billion to the British local public sector, mainly local authorities and social housing. These exposures are 99% rated Investment Grade and Dexia Crédit Local does not anticipate any major negative impact on their credit quality in the short term, following the exit of the UK from the European Union or the Covid-19 pandemic.

- Italy

  Dexia Crédit Local's exposure to the Italian public sector amounted to EUR 6.5 billion as at 30 June 2022, of which the bulk was with Regions (55.7%) and municipalities (32.2%). Dexia Crédit Local benefits from the guarantees provided for by law (*delegazione di pagamento or iscrizione in bilancio*) on these exposures.

  The Covid-19 epidemic has affected the budgetary performance of Italian regions, but this should gradually return to pre-pandemic levels and fiscal performance should recover, mainly due to the continued support of the central government in various forms.

For the ordinary status regions, additional current transfers from the State have offset declines in other taxes resulting from central government taxpayer relief measures and the economic slowdown caused by the lock-in and government restrictions. For the special status regions, the reduction in the contribution to the State budget compensated for the decrease in tax revenues.

In 2022, the central government maintains many support mechanisms for local governments:

- For all local authorities, EUR 1.5 billion is allocated to increase the Local Public Transport Fund and provide additional resources to local authorities, to ensure the essential standards of nursery schools and for the maintenance of provincial roads.
- For the municipalities specifically, approximately EUR 2.6 billion is planned. In addition, EUR 940 million is allocated to environmental policies in 2022 and 2023.
- For the regions, approximately EUR 1.8 billion is planned to cover health costs related to anti-Covid 19 treatments. The National Health Fund is financed with an additional EUR 2 billion each year until 2024.
- For the provinces and metropolitan cities, EUR 4.3 billion is planned for extraordinary maintenance interventions, safety measures, new construction and increasing energy efficiency.

■ Spain

Dexia Crédit Local has a high exposure of EUR 1.1 billion on Catalonia and its related entities. Catalonia is one of the main Spanish regions and an important centre of economic attractiveness for Spain, but its financial situation remains tense. It therefore benefits from strong support from the State. No payment incident on Catalonia or the other Spanish regions to which Dexia Crédit Local is exposed has been recorded as at 30 June 2022.

The support of the Spanish State to regions and municipalities continues to be exercised through the renewal of several financial support funds. Thus, in 2021, approximately EUR 35 billion were paid to the regions, notably via the Liquidity Fund for the Regions (FLA). In 2022, an envelope of EUR 15.7 billion has already been granted for the first six months. In return for this aid, the State's control over regional or local finances is strengthened. Some regions, including Madrid, Castilla y León, Valencia, the Basque Country and Navarra, have been authorised by the State to finance themselves directly on the markets (over the short and medium term).

■ United States

Dexia Crédit Local's exposure to the public sector in the United States amounted to EUR 1.3 billion as at 30 June 2022.

The majority of local public sector exposure in the United States is to States (47%) and local governments (11%). Like the US local public market, Dexia Crédit Local's portfolio is of good quality and is generally insured by monolines.

The main risks affecting the sector are the medium and long-term risks related to the increase of pension debts, with a more or less important reform capacity depending on the legislative framework of each State, and to the possible subordination of bond lenders to the beneficiaries of the pension plans.

As at 30 June 2022, Dexia Crédit Local has an exposure of EUR 0.6 billion on the State of Illinois. Illinois' financial situation continued to improve in 2022 thanks to substantial federal aid and good economic performance, which was accompanied by rating upgrades by three major rating agencies. However, high net pension liabilities will continue to weigh heavily on the state budget over the medium to long term.

Dexia Crédit Local commitments on project finance and corporates

The project finance and corporate loan portfolio amounted to EUR 8.8 billion as at 30 June 2022. This portfolio contracted on the one hand due to natural amortisation and some early redemptions, and on the other hand as a result of the execution of Dexia Crédit Local's asset disposal programme.

The portfolio is composed of 56% project finance[1], the balance being corporate finance, such as acquisition finance, commercial transactions or corporate bonds.

The portfolio is of good quality: 81.5% of project finance and 99.5% of corporate finance are Investment Grade.

In terms of geographical spread, the UK accounts for 54% of the project finance (PPP) and corporate (utilities) portfolio. 89% of this exposure is Investment Grade. At this stage, there has been no significant negative impact from the UK's exit from the European Union and none is expected in the short term.

(1) Non-recourse transactions on their sponsors the redemption of which is based solely on their own cash flows and which are highly secured for the benefit of the bank, e.g. through collateral on assets and contracts or a limitation on dividends.

After analysis of the portfolio, the main sectors impacted by Covid-19 and the conflict in Ukraine where Dexia Crédit Local has a significant presence are:

- the airport sector (exposure of EUR 179 million). The sector is very strongly impacted but Dexia Crédit Local's counterparties seem to be in a position to face the reduction of their activity in the short term. Some of these exposures are guaranteed by a monoline;
- the transport infrastructure sector bearing a traffic risk (excluding airports) on which Dexia Crédit Local has an exposure of EUR 602 million, mainly in Europe. These counterparties generally benefit from reserve accounts allowing to cover a half-yearly maturity. The latest available information on traffic generally points to a return to 2019 levels;
- the oil and gas sector to which Dexia Crédit Local has a low exposure. To date, the quality of Dexia Crédit Local's exposures in this sector remains globally satisfactory, with the exception of one fully provisioned file.

Dexia Crédit Local commitments on ABS

As at 30 June 2022, Dexia Crédit Local's ABS portfolio amounted to EUR 1.1 billion. 98% of the portfolio is rated Investment Grade, as at the end of December 2021.

Dexia Crédit Local commitments on monolines

Dexia Crédit Local is indirectly exposed to monolines in the form of financial guarantees ensuring the timely payment of principal and interest due on certain bonds and borrowings. Actual claims against monolines only become payable if actual defaults occur on the underlying assets. Dexia Crédit Local's insured bonds benefit from enhanced trading values and, in some cases, capital relief due to the credit enhancements provided.

As at 30 June 2022, the exposure to monolines, used for the calculation of risk-weighted assets, amounted to EUR 1.2 billion, of which 100% is insured by monolines rated Investment Grade by at least one external rating agency.

Dexia Crédit Local commitments on financial institutions

Dexia Crédit Local's commitments to financial institutions amounted to EUR 4.8 billion as at 30 June 2022.

Overall, European banks remain solid and have considerable capital and liquidity positions. However, there is still an area of uncertainty regarding the final impact of the Covid-19 pandemic, which can only be fully measured once the support measures of governments and central banks have come to an end.

Furthermore, the situation has been complicated by the Russian invasion of Ukraine. The war has led to a deterioration in economic forecasts and unanticipated inflation, as well as an increase in the threat of cyber attacks on critical infrastructure, particularly in the financial sector.

In the first quarter of 2022, European banks recorded more than EUR 5 billion in provisions. This was mainly due to the economic sanctions against Russia, which impacted economic actors, limiting their interaction with European banks. The macroeconomic environment, characterised by rising interest rates, inflationary pressures and weaker than expected growth, could intensify the pressure on asset quality in the coming quarters.

Potential deteriorators in asset quality include rising energy, commodity and other import costs for businesses. At the same time, rising and volatile commodity and energy prices, as well as ongoing pressures on global supply chains, could prolong the period of high inflation, which could lead to borrower defaults.

Impairments on counterparty risk – Asset quality

As at 30 June 2022, impaired assets decreased from EUR 576 million as at 31 December 2021 to EUR 537 million as at 30 June 2022. Specific provisions amounted to EUR 166 million, up by EUR 2 million compared to 31 December 2021. This increase is explained in particular by the increase in the provisioning rate of the Tunisian sovereign exposure from 51% to 54%.

As a result, the coverage ratio stood at 30.9% as at 30 June 2022, compared with 28.4% as at 31 December 2021.

As at 30 June 2022, collective provisions amounted to EUR 132 million, including EUR 11 million of Stage 1 provisions and EUR 120 million of Stage 2 provisions. They decreased by EUR 33 million over the half-year. An amount of EUR 10 million is recorded in cost of risk and includes a positive impact resulting from the update of the macroeconomic scenario used for the assessment of expected credit losses in the framework of IFRS 9, from the increase in rates and from the evolution of the portfolio (rating changes, disposals, natural depreciation). In a prudent approach, the macroeconomic scenario update incorporates the potential consequences of the conflict in Ukraine and the increase in energy prices. The balance is related to the improvement of the quality of the data used for the assessment of the Significant Increase in Credit Risk (SICR) and is recorded in the equity as an error correction.

ASSET QUALITY		
(in EUR million)	31/12/2021	30/06/2022
Impaired assets[1]	576	537
Specific impairments[2]	164	166
Of which Stage 3	*157*	*160*
Of which POCI	*6*	*6*
Coverage ratio[3]	28.4%	30.9%
Collective provisions	164	131
Of which Stage 1	*9*	*11*
Of which Stage 2	*155*	*120*

(1) Outstanding: computed according the applicable perimeter defined under IFRS 9 (FV through OCI + Amortised Cost + Off Balance).
(2) Impairments: according the portfolio taken into account for the calculation of the outstanding, inclusive the impairments related to POCI.
(3) Specific impairments-to-Impaired assets ratio.

In the current context characterised by geopolitical tensions, a tightened monetary policy and a potential economic impact linked to the successive waves of the Covid-19 pandemic, the assumptions and estimates made for the preparation of the summary consolidated financial statements of Dexia Crédit Local as at 30 June 2022 have changed compared to those used for the consolidated financial statements as at 31 December 2021. In particular, Dexia Crédit Local has reviewed the macroeconomic scenarios included in the point-in-time and forward-looking measures of the probability of default and loss given default models used for the assessment of expected credit losses within the framework of IFRS 9, and has retained a base case macroeconomic scenario based on projections published by the ECB in June 2022 or by national regulators when available (Belgium, France, Germany, Spain, Greece, Italy, Ireland, the Netherlands, Portugal, the United Kingdom, the United States and Tunisia).

The ECB's central scenario for June 2022 is based on the assumption that the current sanctions against Russia will remain in place over the entire projection horizon and that the war will continue until the end of this year without further escalation. Energy supply disruptions will not lead to rationing for euro area countries and supply chain disruptions will gradually be resolved by the end of this year. In the medium term, the growth outlook remains above historical average rates, reflecting the recovery from the pandemic and the negative impact of the war in the context of a robust labour market. Real GDP growth is expected to reach 2.8% in 2022 and 2.1% in 2023 and 2024, above the long-term trend of GDP growth in the Eurozone.

Dexia Crédit Local also considered the downside macroeconomic scenario of the ECB and other central banks, which foresees a severe disruption of the European energy supply, leading to a further spike in energy prices and production cuts. In this downside scenario, real GDP would be 1.3% in 2022, contract in 2023 by 1.7% and then rebound by 3%. As a sensitivity analysis, this scenario projects reduced GDP growth over three years of around 4.5%, while the unemployment rate increases by 2%.

Dexia Crédit Local considered the ECB's central scenario too favourable, given the persistent geopolitical and monetary pressures and the disruptions in supply chains, in particular the reductions in gas supply. Dexia Crédit Local's management therefore decided to consider as a base case scenario for the calculation of provisions as at 30 June 2022 an equal combination of the central scenario and the ECB downside scenario. This results in an increase of the expected credit losses of about 14%.

The IFRS 9 approach also allows for macroeconomic uncertainty around the base case scenario (cf. accounting valuation rules). In this approach, a deviation of two standard deviations has been taken into account on the macroeconomic indicators for a projection horizon of three years. This deviation is calibrated by comparing the macroeconomic projections of past years with the macroeconomic developments actually observed. This results in the creation of an IFRS 9 multi-scenario add-on, which is applied in addition to the provisions calculated in the base case scenario.

Furthermore, Dexia paid particular attention to sensitive economic sectors, in particular those sectors strongly impacted by the 2020 health crisis as well as those sectors which may be impacted by the Russian-Ukrainian conflict and by the economic sanctions taken against Russia. Thus, since 2020, all counterparties likely to be weakened are systematically classified in phase 2 if they are not classified in phase 3. This concerns in particular airports, corporate real estate, French overseas and mountain communities, the oil, gas and tourism-leisure sectors and the financing of student accommodation in the United Kingdom. All these sensitive sectors represent an exposure of EUR 9.9 billion out of a total of EUR 66.3 billion.

On a quarterly basis, Dexia also conducts an in-depth analysis of non-performing counterparties in order to assess the consequences of the health crisis on their financial situation. At this stage, there is no significant increase in default events.

MARKET RISK

For the methodological description of the market risk management framework, please refer to the Annual Report 2021 - Risk measurement.

Thanks to the successful implementation of its asset disposal programme and the simplification efforts undertaken, in particular on its derivatives portfolio, Dexia Crédit Local has reached the threshold allowing it to use the simplified approach within the framework of the prudent valuation. Consequently, since the first quarter of 2022, Dexia Crédit Local has used the simplified method to determine the Prudent Valuation Adjustment (PVA) taken into account in the regulatory capital.

Value at Risk

At the end of June 2022, the total VaR consumption of the trading portfolios amounted to EUR 2.2 million compared to EUR 1.2 million as at the end of 2021.

Sensitivity of the banking portfolio to the evolution of credit spreads

The portfolio classified at fair value through equity is composed of securities and loans and has a sensitivity to an increase in credit spreads which is decreasing due to the sales made under the asset disposal programme and the natural depreciation of these assets. It amounted to EUR -0.8 million as at 30 June 2022 compared to EUR -1.1 million as at 31 December 2021. In addition, the portfolio classified at fair value through profit or loss, also composed of securities and loans, has a sensitivity to an increase in credit spreads of EUR -0.8 million as at 30 June 2022 against EUR -1.1 million as at 31 December 2021. Among these assets at fair value through profit or loss, those not meeting the SPPI criterion have a sensitivity of EUR -0.5 million per basis point compared to EUR -0.7 million per basis point as at 31 December 2021.

TRANSFORMATION RISK

Dexia Crédit Local's asset and liability management (ALM) policy aims to reduce liquidity risk as much as possible and to limit the banking book's exposure to interest rate and exchange rate risk.

Interest rate and currency risk management framework

For the methodological description of the interest rate and exchange rate risk management framework, please refer to the 2021 Annual Report.

The sensitivity of the long-term ALM amounted to EUR -31.8 million as at 30 June 2022 compared to EUR -39.6 million as at 31 December 2021.

The evolution is explained by the desire to hedge the sensitivity of the net interest margin by investing in fixed-rate exposures, which opens up a sensitivity on the economic value. However, this sensitivity remains far from the limits (EUR +/- 130 million).

Liquidity risk management framework

As at 30 June 2022, the Dexia Group (consolidated) and Dexia Crédit Local (statutory) had an LCR ratio of respectively 249% and 209%, well above the minimum requirement of 100%.

At the same date, the net stable funding ratios (NFSR) were also in line with these requirements and amounted to 168% for the Dexia Group (consolidated) and 162% for Dexia Crédit Local (statutory)[(1)].

OPERATIONAL RISK AND IT SYSTEMS SECURITY

Operational risk management is identified as one of the pillars of Dexia Crédit Local's strategy within the context of its orderly resolution. The operational risk management system is based on the standard approach provided by the Basel regulatory framework.

In the first half of 2022, out of all the operational incidents reported, no major financial impact was observed. Non-financial impacts were nevertheless measured, in particular the loss of man-days linked to a limited number of incidents of connectivity to the IT system.

(1) This ratio integrates the net positive result for the half-year.

In 2022, Dexia Crédit Local continues to adapt its structure and operational processes to its orderly resolution mandate. This resolution is by nature conducive to the development of operational risks, in particular due to elements such as the departure of key persons, a possible demotivation of staff members or the implementation of transformation projects, some of which impact operational continuity and require careful monitoring due to significant execution risks. Within this context, in early 2022 Dexia Crédit Local initiated a project to outsource its loan back-office operations, which will be implemented by the end of 2023 (cf. section "Significant events and transactions" of this half-yearly financial report).

Furthermore, Dexia Crédit Local has developed its operational risk monitoring system in line with the generalisation of teleworking in the company, following the implementation in 2021 of a new collective agreement allowing each staff member to work from home three days a week.

Finally, Dexia Crédit Local is also particularly attentive to the regular evolution of its security system covering the risks on IT systems, in particular in relation to the increase of Cyber risks. Within the specific geopolitical context of the first half of 2022, which resulted in an increase in Cyber risk, increased vigilance was put in place. No notable incidents have been reported to date.

The potential impact of the main risks, particularly those relating to IT systems, human resources and outsourcing, is assessed under stress conditions via "expert scenarios" drawn up on an annual basis within the framework of the ICAAP. In addition, a report is produced quarterly to monitor the risks associated with strategic business continuity projects and to ensure that corrective actions are implemented to reduce the most significant risks.

Finally, psychosocial risks are closely monitored and accompanied by preventive and supportive actions.

STRESS TESTS

Dexia Crédit Local carries out multiple scenario analysis and stress test exercises as part of a transversal approach integrated into the Dexia Group's risk management process. The aim of these exercises is to identify possible vulnerabilities and simultaneously estimate, in an adverse shock situation, additional losses, a possible increase in risk-weighted assets, additional liquidity needs or capital requirements.

Used for internal steering purposes, these exercises also help to ensure compliance with regulatory requirements in this area, particularly those relating to stress tests, Pillar 2 and the ICAAP and ILAAP processes defined by the ECB(1).

Thus, a comprehensive programme of stress tests in accordance with the relevant regulations is being implemented to ensure a coherent articulation between the different types of stress (notably market, credit, liquidity and the stresses required under Pillar 2). The main stresses carried out in the first half of 2022 include:

- Specific credit stress tests for the main asset classes. Credit exposures by asset class were subject to annual sensitivity, macroeconomic, historical, concentration and expert scenario tests. The impacts on the cost of risk and risk-weighted assets are analysed. The results of the stress scenarios are contrasted with the results of the Value at Risk (VaR) approach to credit risk. Specific analyses of the sensitivity to environmental risks have been performed.
- Market stress tests (highlighting potential events outside the probabilistic framework of VaR measurement techniques). These were divided into single risk factor tests, historical scenario tests and hypothetical scenario tests.
- Structural interest rate risk stress tests to measure the potential impact on Dexia Crédit Local's equity of a sudden and unexpected change in interest rates, thus meeting regulatory expectations.
- Liquidity stress tests to estimate additional liquidity needs in exceptional but plausible scenarios over multiple time horizons.
- Operational risk stress tests based on the analysis of the frequency and severity of operational incidents, complemented by "expert scenario" analyses covering IT, human resources and outsourcing risks. These different categories of risks are managed within the Risk Appetite Framework (RAF).

A set of specific stress tests (sensitivity analysis, scenario analysis), based on macroeconomic scenarios simulating crisis situations and on expert scenarios. In the specific context of the Covid-19 health crisis, specific scenarios were applied. These stress tests take into account, inter alia, the severe macroeconomic scenarios as published by the European Central Bank and the national banks. In particular, in the current context, geopolitical stress scenarios and stagflation scenarios have been assessed. In connection with the Pillar 2 requirements and the capital adequacy measures requirements, these stress tests are linked to the ICAAP and ILAAP processes. The European Banking Authority's (EBA) 2021 adverse scenario was assessed as a benchmark in the ICAAP.

(1) In line with the directives of the European Banking Authority (EBA) published in July 2018 – Guidelines on the revised common procedures and methodologies for the Supervisory review and evaluation process (SREP) and Supervisory stress testing and Guidelines on institutions' stress testing – and requirements formulated by the European Central Bank in November 2018 – ECB Guide to the internal capital adequacy assessment process (ICAAP) and ECB Guide to the internal liquidity adequacy assessment process (ILAAP).

For ICAAP and ILAAP stresses, at regular intervals Dexia Crédit Local performs a comprehensive review of its vulnerabilities to cover all material risks, linked to its business model under stressed macroeconomic and financial conditions. This review is documented by the ICAAP/ILAAP processes and is applied to and complements the financial planning process.

In addition, reverse stress tests are also conducted. The ICAAP and ILAAP file is independently reviewed by the Internal Validation and/or Internal Audit departments.

Simulations and other stress tests for ICAAP and ILAAP are conducted on a quarterly basis and cover both the regulatory and economic perspectives. In accordance with regulatory requirements, the annual exercise carried out in April 2022 (based on figures as at the end of 2021) has been transmitted to the supervisors (*French Autorité de contrôle prudentiel et de résolution and the National Bank of Belgium*). These tests are an integral part of the RAF and are incorporated into the definition and review of the overall strategy. The link between the risk tolerance, the adaptations of the strategic resolution plan and the ICAAP and ILAAP stress tests is guaranteed by specific indicators of capital consumption of the RAF.

RISK APPETITE FRAMEWORK

The Risk Appetite Framework (RAF) is a regulatory requirement which defines Dexia Crédit Local's risk tolerance as approved by the Board of Directors and is part of the implementation of the Dexia Group strategy. It defines Dexia Crédit Local's risk profile, outlining the types of risk the bank is willing to hold, minimise, mitigate or transfer in order to achieve its strategic objectives. The RAF considers the most important risks and is based on Dexia's strategy and capital projections.

The RAF was implemented at Dexia Crédit Local in 2016. It includes a Risk Appetite Statement (RAS), qualitative and quantitative risk limits and an overview of the roles and responsibilities of the bodies and functions that oversee implementation and monitoring. It is monitored regularly and reviewed annually to incorporate any new regulatory, strategic or operational developments. Thus, the RAS and the RAF indicators have been updated in 2021 and aligned with the new environment. In particular, it includes a specific focus on climate risks. A consolidated quarterly dashboard is presented by the Risk activity line to the Risk Committee and the Board of Directors, with the aim of closely and thoroughly monitoring the main risk indicators and informing the Group's decision-making bodies.

RATINGS

RATINGS AS AT 30 JUNE 2022

	Long term	Outlook	Short term
DEXIA CRÉDIT LOCAL			
Fitch	BBB+	Stable	F1
Moody's	Baa3	Stable	P-3
Moody's - Counterparty Risk (CR) Assessment	Baa3(cr)		P-3(cr)
Standard & Poor's	BBB	Stable	A-2
DEXIA CRÉDIT LOCAL (GUARANTEED DEBT)			
Fitch	AA-	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *(in EUR million)*	30/06/2021	31/12/2021	30/06/2022
Cash and central banks	9,032	9,753	10,300
Financial assets at fair value through profit or loss	10,238	9,280	5,353
Hedging derivatives	808	662	1,548
Financial assets at fair value through other comprehensive income	2,798	1,902	1,736
Financial assets at amortised cost - Debt securities	35,574	34,553	29,339
Financial assets at amortised cost - Interbank loans and advances	18,090	17,306	9,581
Financial assets at amortised cost - Customer loans and advances	24,501	23,860	18,902
Fair value revaluation of portfolio hedges	326	298	(6)
Current tax assets	30	27	28
Accruals and other assets	205	118	175
Tangible fixed assets	23	20	17
Intangible assets	14	7	6
TOTAL ASSETS	**101,639**	**97,786**	**76,979**

LIABILITIES *(in EUR million)*	30/06/2021	31/12/2021	30/06/2022
Financial liabilities at fair value through profit or loss	10,958	10,116	5,496
Hedging derivatives	16,976	16,714	10,949
Interbank borrowings and deposits	8,146	6,656	4,324
Customer borrowings and deposits	7,813	8,819	8,490
Debt securities	51,656	49,406	41,430
Fair value revaluation of portfolio hedges	1	1	(1)
Current tax liabilities	1	1	1
Deferred tax liabilities	81	83	89
Accruals and other liabilities	286	255	307
Provisions	67	87	72
Subordinated debt	20	20	21
TOTAL LIABILITIES	**96,005**	**92,158**	**71,178**
Equity	**5,634**	**5,628**	**5,801**
Equity, Group share	5,634	5,628	5,801
Capital stock and related reserves	2,465	2,465	2,465
Consolidated reserves	3,688	3,691	3,444
Gains and losses directly recognised in equity	(315)	(251)	(270)
Net result of the period	(204)	(277)	162
TOTAL LIABILITIES AND EQUITY	**101,639**	**97,786**	**76,979**

The notes on pages 25 à 40 are integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in EUR million)	30/06/2021	30/06/2022
Interest income	1,201	1,224
Interest expense	(1,179)	(1,190)
Commission income	3	3
Commission expense	(8)	(8)
Net gains (losses) on financial instruments at fair value through profit or loss	(73)	320
Net gains (losses) on financial instruments measured at fair value through other comprehensive income	(26)	0
Net gains (losses) arising on derecognition of financial assets measured at amortised cost	16	(18)
Other income	46	19
Other expenses	(18)	(7)
NET BANKING INCOME	**(38)**	**343**
Operating expenses	(153)	(166)
Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(8)	(5)
GROSS OPERATING INCOME	**(199)**	**172**
Cost of credit risk	47	6
OPERATING INCOME	**(152)**	**178**
NET RESULT BEFORE TAX	**(152)**	**178**
Income tax	(52)	(16)
NET INCOME	**(204)**	**162**
NET INCOME, GROUP SHARE	**(204)**	**162**

The notes on pages 25 à 40 are integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in EUR million)	30/06/2021	30/06/2022
NET INCOME	(204)	162
Elements reclassified or likely to be subsequently reclassified in net income		
- Changes in fair value of debt instruments at fair value through other comprehensive income	48	(11)
- Revaluation of hedging derivatives	98	(9)
- Tax (expense) benefit	0	1
Elements that will never be reclassified or likely to be subsequently reclassified in net income		
- Actuarial gains and losses on defined benefit plans	2	0
- Own credit risk revaluation directly recognised in equity for the financial liabilities designated at fair value through profit or loss	(3)	(1)
- Changes in fair value of equity instruments at fair value through other comprehensive income	(2)	0
- Tax (expense) benefit	1	1
TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	145	(19)
NET RESULT AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	(59)	143
of which, Group share	(59)	143

The notes on pages 25 à 40 are integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2021 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock and related reserves			Consolidated reserves	Gains and losses directly recognised in equity							Net income, Group share	Equity, Group share	Equity
(in EUR million)	Capital stock	Related reserves	Total		Change in fair value of debt instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of equity instruments measured at fair value through other comprehensive income, net of taxes	Change in fair value of cash flow hedges, net of taxes	Actuarial gains and losses on defined benefit plans	Change in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk, net of taxes	Translation adjustments	Total			
AS AT 31/12/2020	279	2,186	2,465	4,244	(141)	1	(385)	(5)	33	38	(460)	(557)	5,692	5,692
Movements during the period														
- Appropriation of net income 2020				(557)								557	0	0
Subtotal of shareholders related movements				**(557)**								**557**	**0**	**0**
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity					24						24		24	24
- Equity instruments at fair value through other comprehensive income : transfer of the cumulative gain or loss within equity				2		(2)					(2)		0	0
- Amounts reclassified to profit or loss following the impairment or the disposal of debt instruments measured at fair value through other comprehensive income					25						25		25	25
- Gains and losses of the period of cash flow hedge derivatives, through equity							(3)				(3)		(3)	(3)
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss							101				101		101	101
- Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)									(2)		(2)		(2)	(2)
- Changes in actuarial gains and losses on defined benefit plans								2			2		2	2
- Net income for the period												(204)	(204)	(204)
AS AT 30/06/2021	279	2,186	2,465	3,688	(93)	0	(287)	(3)	31	38	(316)	(204)	5,634	5,634
AS AT 31/12/2021	279	2,186	2,465	3,691	(60)	(1)	(250)	(5)	28	38	(251)	(277)	5,628	5,628
Correction of opening equity[(1)]				25									25	25
AS AT 01/01/2021	279	2,186	2,465	3,716	(60)	(1)	(250)	(5)	28	38	(251)	(277)	5,653	5,653
Movements during the period														
- Appropriation of net income 2021				(277)								277	0	0
Subtotal of shareholders related movements				**(277)**								**277**	**0**	**0**
- Own credit risk reclassified upon derecognition from accumulated other comprehensive income to equity for the period				5					(5)		(5)		0	0
- Changes in fair value of financial assets measured at fair value through other comprehensive income, through equity					(11)						(11)		(11)	(11)
- Gains and losses of the period of cash flow hedge derivatives, through equity							(57)				(57)		(57)	(57)
- Gains and losses on cash flow hedge derivatives reclassified in profit or loss							48				48		48	48
Changes in fair value of financial liabilities designated at fair value through profit or loss attributable to own credit risk (OCR)									5		5		5	5
- Net income for the period												162	162	162
AS AT 30/06/2022	279	2,186	2,465	3,444	(71)	(1)	(259)	(5)	28	38	(270)	162	5,801	5,801

(1) Following data quality work carried out during the first half of the year, the ratings at origin of certain counterparties turned out to be erroneous. This error correction led to a favorable effect of EUR +25 million on expected credit losses as of 01/01/2022 recognised as a correction of opening equity.

The notes on pages 25 à 40 are integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in EUR million)	30/06/2021	30/06/2022
Cash flow from operating activities		
Net income after income taxes	(204)	162
Adjustment for:		
- Depreciation, amortisation and other impairment	8	5
- Impairment losses (reversal impairment losses) on bonds, loans and other assets	(47)	(6)
- Net increases (net decreases) in provisions	(42)	(15)
- Unrealised (gains) or losses on financial instruments	90	(272)
- Conditional deferred commission		1
- Deferred taxes	51	8
Changes in operating assets and liabilities	684	592
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**540**	**475**
Cash flow from investing activities		
Purchase of fixed assets	(8)	(1)
Sales of unconsolidated equity shares	6	11
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(2)**	**10**
Cash flow from financing activities		
Cash outflow related to lease liabilities	(4)	(4)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(4)**	**(4)**
NET CASH PROVIDED	**534**	**481**
Cash and cash equivalents at the beginning of the period	**10,519**	**10,836**
Cash flow from operating activities	540	475
Cash flow from investing activities	(2)	10
Cash flow from financing activities	(4)	(4)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	4	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**11,057**	**11,334**
Additional information		
Income taxes (paid) refund	0	(1)
Interest received	2,403	2,468
Interest paid	(2,390)	**(2,451)**

The notes on pages 25 à 40 are integral part of these condensed consolidated financial statements.

NOTE I. ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CHANGES IN SCOPE OF CONSOLIDATION – SIGNIFICANT ITEMS INCLUDED IN THE STATEMENT OF INCOME – OTHER SIGNIFICANT EVENTS OF THE PERIOD – POST-BALANCE-SHEET EVENTS

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors. Its registered office is located at Tour CBX La Défense 2 – 1, Passerelle des Reflets, 92913 La Défense.

These condensed consolidated financial statements were authorised for issue by the Board of Directors on 1 September 2022.

Accounting policies

The principal accounting policies adopted in the preparation of these condensed consolidated financial statements are set out below.

The commonly used abbreviations below are:

- IASB: International Accounting Standards Board
- IFRS IC: IFRS Interpretations Committee (ex IFRIC)
- IFRS: International Financial Reporting Standards

1. Basis of accounting

Dexia Crédit Local's condensed consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Commission up to 30 June 2022 and applicable as from 1 January 2022.

The interim condensed consolidated financial statements as at 30 June 2022 have been prepared in accordance with the same accounting policies and methods of computation as those used in the preparation of the 2021 annual financial statements, except for the elements stated in the section 2. "Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group".

In particular, interim financial statements have been prepared and presented in accordance with IAS 34 "Interim Financial Reporting" which provides for condensed set of financial statements and measurements for interim reporting purposes made on a financial year-to-date basis.

The Dexia Crédit Local condensed financial statements as at 30 June 2022 have been prepared in accordance with the going concern accounting rules under IAS 1 § 25 and 26. This involves a certain number of assumptions constituting the business plan underlying the Dexia Group's resolution which was the subject of a decision by the European Commission in December 2012 and reassessed on the basis of the elements available at the date of closing the accounts.

The main assumptions used by management to prepare the condensed financial statements as at 30 June 2022 and the areas of uncertainty are summarised below:

- The business plan assumes the maintenance of the banking licence of Dexia Crédit Local as well as the maintenance of the rating of Dexia Crédit Local at a level equivalent to or higher than Investment Grade.
- The continuation of the resolution assumes that Dexia Crédit Local maintains a good funding capacity which relies in particular on the appetite of investors for the debt guaranteed by the Belgian and French States as well as on Dexia Crédit Local's ability to raise secured funding. Since 1 January 2022, Dexia Crédit Local's issues have benefited from the 2022 guarantee, which extends the 2013 guarantee, which expired on 31 December 2021.
- Although it manages these risks very proactively, Dexia Crédit Local remains extremely sensitive to the evolution of the macroeconomic environment and to market parameters such as exchange rates, interest rates or credit spreads. An unfavourable evolution of these parameters in the long term could weigh on Dexia Crédit Local's liquidity and solvency level. It could also have an impact on the valuation of assets, financial liabilities or OTC derivatives, the changes in the fair value of which are recognised in the income statement or through equity and are likely to result in a change in the regulatory capital level.
- Dexia Crédit Local is also exposed to certain operational risks, specific to the resolution environment in which it operates and which have been reinforced by the teleworking context.
- Finally, residual uncertainties related, for example, to new developments in accounting and prudential rules over the duration of the Dexia Group's resolution could lead to a significant change in the initially anticipated resolution trajectory.

In assessing the appropriateness of the going concern basis, management has considered each of these assumptions and areas of uncertainty.

- Since Dexia Crédit Local entered into orderly resolution, Dexia has continuously reduced its funding requirement and extended the maturity of the funding raised, with a view to prudent liquidity management. The increase in interest rates, starting in 2021 and continuing in 2022, has led to a sharp reduction in the net cash collateral posted by Dexia Crédit Local. Combined with the reduction of portfolios, this results in a significant decrease of EUR 8.3 billion of Dexia Crédit Local's funding need over the half-year, to EUR 53.3 billion as at 30 June 2022. Given this favourable development and the fact that the Group has maintained a liquidity reserve deemed adequate with the restriction on access to European Central Bank (ECB) funding effective from 1 January 2022, long-term issuance activity was limited to one benchmark successfully launched in January 2022 for a total amount of GBP 750 million. As at 30 June 2022, the liquidity reserve amounted to EUR 12.8 billion, of which EUR 11.7 billion in cash.
- Within the framework of the preparation of the condensed financial statements as at 30 June 2022, Dexia Crédit Local reviewed the macroeconomic scenarios used for the assessment of expected credit losses under IFRS 9 and retained a base case scenario, based on the most recent European Central Bank (ECB) projections published in June 2022, supplemented by scenarios published by national central banks when available. The central scenario of the ECB assumes that the current sanctions against Russia will remain in place over the entire projection horizon and that the war will continue until the end of this year without further escalation. In the medium term, the growth outlook remains above historical average rates, reflecting the recovery from the pandemic and the negative impact of the war against the background of a robust labour market. However, Dexia Crédit Local considered this scenario too favourable, given the persistent geopolitical and monetary pressures and the disruptions in supply chains, including gas supply cuts. Therefore, a cautious approach was taken, also taking into account the downside macroeconomic scenario of the ECB and other central banks, which foresees a severe disruption of the European energy supply, again leading to a spike in energy prices and production cuts.
- Management has also taken into account the constraints and uncertainties of its operating model as well as the risks related to the continuity of operations, inherent to Dexia Crédit Local's specific character as a bank in resolution.

Consequently, after having taken all these elements and uncertainties into account, Dexia Crédit Local's management confirms that as at 30 June 2022, they do not call into question the fundamentals of the orderly resolution of Dexia Crédit Local or the assessment of the application of the going concern assumption. Therefore, the condensed financial statements can be prepared in accordance with the going concern accounting rules under IAS 1 § 25 and 26.

The condensed consolidated financial statements are presented in millions of euro (EUR) unless otherwise stated.

2. Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local Group

2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2022

- « **Annual Improvements – 2018-2020 cycle** » which are a series of amendments to existing IFRS. These amendments do not have a material impact on Dexia Crédit Local's financial statements as they are only minor adjustments to certain IFRS standards.
- **Amendment to IAS 37** « Onerous Contracts – Cost of Fulfilling a Contract », **amendment to IAS 16** « Proceeds Before Intended Use », **amendment to IFRS 3** « Reference to the Conceptual Framework ». These limited scope amendments have no significant impact on the financial statements of Dexia Crédit Local as of 30 June 2022.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2022

- **Amendment to IAS 1 and IFRS 2 Practice Statement** "Disclosure of Accounting policies". This amendment will be applicable as from 1st January 2023 and its impact on Dexia Crédit Local's disclosures to financial statements is being analysed.
- **Amendment to IAS 8** "Definition of Accounting Estimates". This amendment, which aims to facilitate the distinction between accounting methods and accounting estimates, will be applicable from 1st January 2023 and its impact is currently being analysed.

2.3. New IFRS standards, IFRIC interpretations and amendments issued during the current year but not yet endorsed by the European Commission

None.

2.4. New standard IFRS 17 "Insurance Contracts"

This standard issued by IASB in May 2017 replaces the current IFRS 4 "Insurance Contracts" standard and will be effective as from 1 January 2023. This new standard will have no impact on Dexia Crédit Local's financial statements as Dexia Crédit Local has no insurance contracts within the scope of the standard.

3. Changes in presentation of condensed consolidated financial statements of Dexia Crédit Local

The condensed consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the ANC (Autorité des Normes Comptables, Authority for Accounting Standards) presentation. As at 30 June 2022, they are compliant with ANC Recommendation 2017-02 issued on 2 June 2017 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards".

As from 31 December 2021, for simplification reasons and considering the amounts concerned, Dexia Crédit Local changed its presentation of the amounts related to "Tax benefit" in the table "Consolidated statement of comprehensive income ". This presentation remains compliant with the ANC recommendation. This change has no significant impact on Dexia Crédit Local's financial statements.

4. Use of estimations and judgments

In preparing the condensed consolidated financial statements, management is required to make estimates and assumptions that involve uncertainties relating to their occurrence in the future and that affect the amounts reported, including in the disclosures. To make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes that it has considered all available information in developing these estimates, actual results may differ from the estimates and the differences could be material to the financial statements.

The main valuation processes requiring the use of assumptions and estimates are:

- valuation of financial instruments by means of valuation techniques, determination whether or not there is an active market and the use of internal models when determining the fair value for financial instruments that are not quoted on an active market;
- determination of expected credit losses (ECL) to be recognised for impairment of financial assets under IFRS 9: assessment of criteria for significant increase in credit risk, choice of appropriate models and assumptions for the measurement of ECL, establishment of the number and relative weightings of forward-looking scenarios and determination of the forward looking information relevant to each scenario, determination of Probability of Default (PD) and Loss Given Default (LGD) (IFRS 9);
- determination of fair value less costs to sell for non-current assets and disposal groups held for sale. Dexia Crédit Local uses its judgment for identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5);
- assessment of the conditions allowing the application of hedge accounting and measurement of hedge effectiveness in hedging relationships;
- analysis of renegotiated assets in order to determine whether they should be maintained on the balance sheet or derecognised;
- determination of the useful life and the residual value of property, plant and equipment, and intangible assets. Dexia Crédit Local exercises its judgment in assessing the conditions for capitalising assets;
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets;
- determination of the value of right-of-use assets and lease liabilities of lease contracts and in particular determination of the lease period;
- determination of the uncertainty over income tax treatments and other provisions for liabilities and charges. Like many financial institutions, Dexia Crédit Local is subject to several regulatory investigations and is named as a defendant in a number of lawsuits. The existence of a present obligation with probable outflows in the context of litigations requires the use of judgment. The Group's consolidated financial statements reflect the consequences, as assessed by Dexia Crédit Local in accordance with the information available to it on the date of preparation of the financial statements, of major disputes and investigations that could have a material impact on the Group's financial situation, performance or activities and provisions were recorded when deemed necessary.

Moreover, the exercise of judgment is necessary to assess the business model followed by Dexia Crédit Local for the management of financial instruments and whether a financial instrument can be categorised as SPPI or "basic", as well as for the assessment on whether Dexia Crédit Local controls the investee, including structured entities, for determining the consolidation scope (IFRS 10).

Moreover, in the context of the IBOR reform, Dexia Crédit Local exercises its judgment to assess whether the modification of contracts is made on an economically equivalent basis. This judgment was mainly exercised for the transition of certain contracts in 2021 (see note 1.1.2.1 of the annual report 2021).

5. IBOR benchmark rates reform

Presentation of the IBOR reform

Following the weaknesses of IBOR interbank rates revealed by the financial crisis, a reform has been launched at international level in order to strengthen the reliability of benchmark methodologies and to replace IBOR benchmarks by new risk-free rates.

Dexia Crédit Local being exposed to the IBOR indices, mainly in euros, US dollars and pounds sterling, through its financial instruments remains impacted by this reform. A large number of financial instruments have been already amended in order to reflect the new rates (via the replacement of the benchmark interest rate or via the insertion of fallback clauses, setting out the terms and conditions of replacement in the event of the cessation of a benchmark interest rate) considering the following reform progress :

- in the euro zone, EONIA has been replaced by €STR since 3 January 2022. Since 2 October 2019 ant till its replacement, EONIA was based on €STR (EONIA = €STR + 8.5 bps). Regarding EURIBOR, a new so-called "hybrid" methodology has been recognised as BMR compliant since July 2019 and this rate was added to the benchmark register of the European Securities and Markets Authority (ESMA). The EURIBOR is therefore maintained for the next few years, but there is a moderate uncertainty as to its durability and on maintaining the "hybrid" method.
- regarding the USD LIBOR and GBP LIBOR replacement indices, the new SOFR and SONIA risk-free rates which comply with the BMR regulations have been published since 2018. The index based on SOFR is expected to replace the current LIBOR USD index the publication of which will continue until 30 June 2023 for most of its tenors. Uncertainties still remain for transactions using the USD LIBOR. The GBP LIBOR index has been replaced by SONIA since 1st January 2022. However, for certain contracts qualified as *tough legacy* and for a limited period of time, the GBP LIBOR index is maintained beyond this deadline according to a "synthetic LIBOR" methodology which is based on the new risk-free rate. The contracts concerned are contracts that could not be renegotiated before the index cessation because their transition is particularly difficult or it requires a prior agreement from the authorities, thus lengthening the renegotiation period.

Management of the transition within Dexia Crédit Local and new risks arising from the IBOR reform

A project structure has been set up within Dexia Crédit Local since the second half of 2018 in order to ensure the transition to the new benchmark rates. This project involves all of Dexia Crédit Local's business lines and functions. It aims to anticipate the impacts of the reform from a legal, commercial, financial, accounting, risk framework and operational viewpoint and to implement the transition process to the new indexes while reducing the risks linked to this transition and respecting the deadlines defined by the regulators. As part of this project, the following work is being carried out, in particular:

- monitoring of the regulatory developments of the IBOR reform;
- mapping of the financial instruments concerned by the reform;
- analysis and management of risks generated by the reform. These risks are mainly legal (related to the contractual documentation and the associated litigation risk), conduct risk (related to negotiations with clients and banking counterparties given the necessary amendments to existing contracts), financial (related to the possible market disruptions due to the interest rate reform and mainly limited to the interest rate risk), operational (related to the execution of transaction migrations and change in information systems) and accounting (related to the potential impacts in the income statement due to the transition of hedging relationships and following the post-transition revaluation of hedging instruments and hedged items);
- legal analysis and update of contracts (benchmark rates replacement in contracts and transactions, insertion of robust fallback clauses);
- implementation of the strategy, organisation and execution of the transition of contracts qualified as *tough legacy*;
- implementation of changes in information and management systems, process update;
- external and internal communications.

The reporting on the progress of the project is done on a regular basis to the Management Committee as well as to the Board of Directors.

During the year 2021, Dexia Crédit Local mainly focused its work on the transition of its contracts indexed to the GBP LIBOR, JPY LIBOR, CHF LIBOR and EONIA considering the discontinuation of these indices respectively on 1st January 2022 and 3 January 2022. In particular, Dexia Crédit Local:

- adhered to the ISDA Protocol in June 2021, leading to an automatic amendment of master agreements with bilateral counterparties which have also adhered to the Protocol. Thus, for most of Dexia Crédit Local's bilateral derivatives, the replacement of the index was effective in January 2022 via the activation of the fallback clauses under the ISDA contract. However, some derivatives have been early renegotiated directly with the counterparties and modified as from the year 2021. Moreover, for derivative contracts indexed to EONIA, not included in the ISDA protocol, new replacement clauses were added via an amendment to the ISDA contract. As for Dexia Crédit Local's derivative contracts treated with clearing houses, the transition to replace the index of the floating leg of instruments indexed on EONIA and GBP LIBOR took place on 15 October 2021 and 17 December 2021 respectively;

- accomplished the transition to €STR of its cash collateral arrangements in EUR linked to derivative and repo contracts with OTC counterparties. As for the agreements relating to derivatives treated with clearing houses, the transition to the €STR and SOFR for the remuneration of cash collateral and the discounting curve took place in 2020;
- completed the update of contracts or implementation of appropriate fallback provisions for the vast majority of its securities contracts, loans and credit lines as well as funding contracts concerned by the transition.

As of 31 December 2021, Dexia Crédit Local finalised substantially all the transitions of contracts on indexes terminating at the end of 2021. The remaining contracts were those for which the transition terms to the new interest rate benchmarks were fixed in 2021 and for which the migration took place during the first semester of 2022. Moreover, for a very limited number of Dexia Crédit Local's instruments qualified as *tough legacy* (see above) the synthetic GBP LIBOR is applied as from 1st January 2022, while awaiting for the conclusion of renegotiation of contracts with clients in 2022. Dexia Crédit Local also continues its work with the elaboration of the transition strategy for its instruments indexed on the USD LIBOR in view of the discontinuation of the index by the end of June 2023. During the first half of 2022, Dexia Crédit Local did not modify any of its contracts indexed on the USD LIBOR.

Outstanding amounts of financial instruments impacted by the index reform are presented in note 4.8 of the 2021 annual report.

Accounting issues associated with the IBOR reform

This reform has impacts on the accounting treatment and measurement of financial assets and liabilities using these benchmarks as well as on the accounting treatment of the related hedging derivatives. In order to limit the potential accounting impacts of the reform, two texts have been published by the IASB:

- Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest rate benchmark reform", published by IASB in September 2019 and adopted by the European Union in January 2020, address issues related to hedge accounting in the period of uncertainty preceding the entry into force of these new rates. The IASB amendments aim at maintaining the existing hedging relationships by assuming that the interest rate benchmark on which the hedged cash flows and/or cash flows from the hedging instrument are based will not be altered. These amendments introduced reliefs mainly relating to the highly probable requirement for the cash flows hedged, the respect of the "separately identifiable" requirement for the risk hedged, the prospective and retrospective effectiveness testing. In order to ensure the continuity of its hedging relationships, Dexia Crédit Local has early applied the provisions of these amendments since 31 December 2019. Dexia Crédit Local applies the reliefs introduced by the amendments as long as the uncertainties regarding the timing and the amount of cash flows (index, margin adjustment or compensation) of the hedged and/or hedging instruments (i.e. until the effective amendment of clauses of the affected financial instruments) are not resolved.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest rate benchmark reform – Phase 2" on the second phase of the project relating to accounting issues after the entry into force of the new rates and applied by Dexia Crédit Local as from 1st January 2021. These new amendments deal particularly with the derecognition and modification of financial assets and liabilities indexed to the rate references in the scope of the reform and with hedge accounting issues. The provisions of these amendments are presented in the note 1.1.2.1 of the 2021 annual report.

Impacts on Dexia Crédit Local's financial statements

During the first half of the year 2022, considering the application of the amendments to IFRS 9 and IAS 39 on interest rate benchmark reform - phase 2, the transition of Dexia Crédit Local's fair value hedge derivative contracts indexed on the GBP LIBOR, JPY LIBOR and CHF LIBOR to new indices via the activation of replacement clauses under the ISDA protocol generated a positive impact on income of EUR 329 million. This amount is in line with the estimated amount presented in the annual report as of 31 December 2021. This impact is mainly due to derivative contracts indexed on the GBP LIBOR which have been amended in order to incorporate the new SONIA index. According to the transition terms adopted by the markets, this replacement on the floating leg of derivatives, by adding a fixed spread to compensate for the basis difference between the GBP LIBOR and SONIA, did not generate any impact on the fair value of derivatives at the time of the transition. The redefinition of the hedged risk against SONIA and of the new hedged portion was documented simultaneously to the change related to derivatives. So, the impact on the consolidated statement of income of Dexia Crédit Local was generated by the revaluation, based on SONIA's curve, of the fair value of the hedged risk following its redefinition. It corresponds to the reversal of the stock of GBP LIBOR/SONIA accounting inefficiency at the time of the transition. By aligning the fair value hedges to the new benchmark, which is the risk-free rate, the volatility arising from the GBP LIBOR/SONIA risk has therefore been eliminated, along with the associated hedge ineffectiveness.

Regarding the modification in 2022 of non-derivative financial asset and liability contracts to the new indices replacing the GBP LIBOR, JPY LIBOR, CHF LIBOR and EONIA, the new provisions of the amendments to IFRS 9 allowed limiting the impacts on the financial situation of Dexia Crédit Local since the changes in rates were required by the reform and were carried out by Dexia Crédit Local on an economically equivalent basis.

The impact of the future transition of instruments indexed on the USD LIBOR on the consolidated accounts of Dexia Crédit Local cannot be estimated at this stage.

CHANGES IN SCOPE OF CONSOLIDATION

As at 30 June 2021

Nil.

As at 30 June 2022

Nil.

SIGNIFICANT ITEMS INCLUDED IN THE INCOME STATEMENT

Net income, group share for the first half year 2022 amounts to EUR +162 million, compared to EUR -204 million for half year 2021.

Net banking income is positive at EUR +342 million (EUR -38 million in 2021). The amount includes the funding of assets, the impact due to fair value measurement of derivatives, the results from disposals of assets and the changes in provisions for legal risks.

Gains or losses on financial instruments at fair value through profit or loss amount to EUR +320 million (EUR -73 million in 2021) and includes an income of EUR +329 million related to the transition of indexed fair value hedge derivative contracts on GBP, JPY and CHF LIBOR, recorded as part of the reform of the IBOR benchmark indices. The change in market conditions during the half year, and in particular the rise in interest rates, also had an effect of EUR -59 million (EUR -13 million in 2021) on the fair value hedge inefficiency, partially compensated by an income of EUR +15 million linked to the hedging of the Euribor IOS basis risk.

It also includes a favorable evolution of the *Funding Value Adjustment* (FVA), *Credit Value Adjustment* (CVA) and *Debit Valuation Adjustment* (DVA) for a total amount of EUR +23 million (EUR +42 million in 2021).

Net gains or losses from financial instruments at fair value through equity is nil in 2022. It amounted to EUR -26 million in 2021 following various disposals carried out as part of the deleveraging plan validated in the past.

Net gains or losses arising on derecognition of financial assets measured at amortised cost at EUR -18 million (EUR +16 million in 2021) notably includes a loss of EUR -19 million related to the sale of an outstanding amount of EUR 379 million securities mainly as part of the reduction of the group's concentration risk.

Net *other results*, at EUR +12 million (EUR +28 million in 2021) mainly result from the net provision for litigations and also include a net favorable impact of EUR +10 million due to the signature of a transactional protocol with a counterparty.

Costs amount to EUR -171 million (EUR -161 million in 2021). Taxes and regulatory contributions amount to EUR -61 million and increase compared to 2021 (EUR -52 million), attributable to the increase of contributions to the Single Resolution Fund. General operating expenses also remain impacted by significant transformation costs.

Cost of credit risk amounts to EUR +6 million (EUR +47 million in 2021) and includes

- a net reversal of collective provisions (EUR 11 million) resulting from the review of the macroeconomic scenario based on the projections published by the ECB in June 2022, and an add-on for the war in Ukraine, as well as the update of the calculation parameters and the evolution of the portfolio (discount factor strongly impacted by the rise op interest rates, changes in rating, disposals, natural amortisation),
- a net allocation to specific provisions (EUR -5 million).

Income tax amounts to EUR -16 million (EUR -52 million in 2021), including a current tax charge of EUR -8,5 million and a deferred tax charge of EUR -7,5 million.

OTHER SIGNIFICANT ITEMS OF THE PERIOD

Nil.

POST BALANCE SHEET EVENTS

Nil.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal programme at the beginning of 2014 as required under the resolution plan, Dexia and Dexia Crédit Local are now focused on managing its residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors and avoiding any systemic risk, in line with the company's mission. In line with the Group's profile and strategy, Dexia Crédit Local's performance is shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

NOTE III. EXCHANGE RATES

EXCHANGE RATES					
	Closing rate			Average rate	
	30/06/2021	31/12/2021	30/06/2022	30/06/2021	30/06/2022
US Dollar	1.1871	1.1352	1.0422	1.2026	1.0861

NOTE IV. FAIR VALUE

Some amounts may not add up due to roundings off

FAIR VALUE MEASUREMENT AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument. The determination whether or not there is an active market is based on criteria such as volume traded, market liquidity, bid offer spread etc.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia Crédit Local's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorised into one of three fair value hierarchy levels. The following definitions used by Dexia Crédit Local for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly;
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

According to Dexia Crédit Local's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

Valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets measured at fair value through other comprehensive income and valuations for disclosures) can be summarised as follows:

1. Financial instruments measured at fair value (held for trading, non-trading instruments mandatorily measured at fair value through profit or loss, fair value option, measured at fair value through other comprehensive income, derivatives)

Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. The Market Risk department regularly monitors the quality of valuations:

- the valuations of derivatives are compared with those provided by a number of counterparties (in particular, via the collateral, the Totem consensus organised by Markit, etc.) and analysed monthly during an ad hoc committee;
- transaction execution levels are used to ensure the quality of the valuation approaches;
- the valuation approaches are regularly reviewed and are subject to validation by a Validation team.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia Crédit Local incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower level committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia Crédit Local's general valuation principals ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Market Risk department based on the information provided by the Front Office and are validated by a Validation team. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. An inventory of the products is regularly produced, with their main features, their materiality and their model status.

For bonds and loans for which no active market exists, Dexia Crédit Local maximises the use of market data.

Dexia Crédit Local uses a discount cash-flow model, based on a credit spread. For bonds, the credit spread is estimated from market data which are directly available from external contributors (for example Bloomberg, Market) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (for example from the same economic sector, rating, currency). For loans, credit spreads are determined by the Asset department based on an expert's opinion based on the characteristics and the complexity of the loans and information on the level of spreads observed by customer managers. These credit spreads are verified by the Market Risk department as part of an independent review.

Concerning the valuation of derivatives, Dexia Crédit Local calculates a market value based on market data quoted at mid-market level. This market value is adjusted, in order to take into account the difference between bid prices and ask prices, by a Bid/Ask reserve on positions that could be reversed by Dexia Crédit Local by anticipation. The calculation of this reserve is mainly based on a sensitivity approach and for certain more complex derivatives on a historical record of exit prices. The market value is also adjusted to take into account credit risks (Credit Valuation Adjustment (CVA) / Debit Valuation Adjustment (DVA)) and funding costs (Funding Valuation Adjustment (FVA)).

A CVA reflects the counterparty's risk of default and a DVA reflects Dexia Crédit Local's own credit risk.

When determining the CVA / DVA, Dexia Crédit Local considers two different markets:

- The market of collateralised derivatives, where there is a daily exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a margin period of risk.
- The market of uncollateralised derivatives, where there is a risk on the fair value of the derivative at the balance sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Based on the assumptions that market participants would consider when determining the fair value, Dexia Crédit Local uses overnight Risk Free Rate (RFR) discounting curves or RFR curves adjusted to take into account the terms of the collateral remuneration. This approach is applied for all derivatives, regardless if they are collateralised or not.

A Funding Valuation Adjustment (FVA) takes into account the funding costs associated with its uncollateralised derivative positions. As these uncollateralised derivatives are not subject to margin calls, the bank benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives.

The level of funding costs used in determining the FVA reflects the funding of the exposure related to uncollateralised derivatives at rates different from overnight rates.

Regarding the valuation of assets, Dexia Crédit Local takes into account the prepayment risk associated with these assets.

Dexia Crédit Local will continue to improve its models in future periods and taking into account the market practices.

2. Financial instruments measured at amortised cost (valuations in disclosures on fair value)

These instruments are valued using the same approach as described above for instruments recognised at fair value on the balance sheet.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables compare fair value with carrying amount of financial instruments not measured at fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/2021		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	9,753	9,753	0
Debt securities at amortised cost	34,553	30,522	(4,031)
Interbank loans and advances, at amortised cost	17,306	17,297	(8)
Customer loans and advances, at amortised cost	23,860	19,890	(3,970)
Interbank borrowings and deposits	6,656	6,109	(547)
Customer borrowings and deposits	8,819	8,785	(34)
Debt securities	49,406	48,635	(771)
Subordinated debt	20	20	0

FAIR VALUE OF FINANCIAL INSTRUMENTS

	30/06/2022		
(in EUR million)	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	10,300	10,300	0
Debt securities at amortised cost	29,339	25,065	(4,274)
Interbank loans and advances, at amortised cost	9,581	9,579	(1)
Customer loans and advances, at amortised cost	18,902	15,830	(3,071)
Interbank borrowings and deposits	4,324	4,321	(3)
Customer borrowings and deposits	8,490	8,437	(53)
Debt securities	41,430	40,716	(714)
Subordinated debt	21	20	(1)

ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide an analysis of the fair value of assets and liabilities, based on the degree to which the fair value is observable (level 1 to 3). The fair value measurement is recurring. The non-recurring fair value measurement is not significant for Dexia Crédit Local.

FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/2021			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss		**6,539**	**2,740**	**9,280**
Financial assets held for trading		5,460	1,820	7,281
- Derivatives		*5,460*	*1,820*	*7,281*
Financial assets mandatorily at fair value through profit or loss		1,079	920	1,999
- Debt securities		*201*	*2*	*203*
- Loans and advances		*878*	*916*	*1,794*
- Equity instruments			*2*	*2*
Hedging derivatives		**589**	**73**	**662**
Financial assets at fair value through other comprehensive income	**275**	**924**	**703**	**1,902**
- Debt securities	*275*	*93*		*368*
- Loans and advances		*805*	*698*	*1,503*
- Equity instruments designated at fair value through other comprehensive income		*27*	*5*	*31*
TOTAL	275	8,052	3,516	11,844

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/2021			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss		**7,710**	**2,406**	**10,116**
- Financial liabilities designated at fair value		*812*		*812*
- Trading derivatives		*6,898*	*2,406*	*9,304*
Hedging derivatives		**6,207**	**10,508**	**16,714**
TOTAL		13,917	12,914	26,830

FAIR VALUE OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)				
	30/06/2022			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss		**3,474**	**1,879**	**5,353**
Financial assets held for trading		2,688	1,139	3,827
- Derivatives		*2,688*	*1,139*	*3,827*
Financial assets mandatorily at fair value through profit or loss		786	740	1,526
- Debt securities		*6*	*2*	*8*
- Loans and advances		*780*	*736*	*1,516*
- Equity instruments			*2*	*2*
Hedging derivatives		**1,484**	**64**	**1,548**
Financial assets at fair value through other comprehensive income	**282**	**837**	**617**	**1,736**
- Debt securities	*282*	*85*		*367*
- Loans and advances		*726*	*613*	*1,338*
- Equity instruments designated at fair value through other comprehensive income		*27*	*5*	*31*
TOTAL	282	5,795	2,560	8,637

FAIR VALUE OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)				
	30/06/2022			
(in EUR million)	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss		**4,158**	**1,337**	**5,496**
- Financial liabilities designated at fair value		*558*		*558*
- Trading derivatives		*3,600*	*1,337*	*4,937*
Hedging derivatives		**4,621**	**6,329**	**10,949**
TOTAL		8,779	7,666	16,446

TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

The tables hereunder present the amounts of financial instruments at fair value, for which fair value measurement is recurring, still in the books at the end of the period and for which the methodology of valuation has been changed between level 1 and level 2. The amounts of transfers between levels are the amounts of fair value of financial instruments at closing date

	30/06/2021		30/06/2022	
(in EUR million)	From level 1 to level 2	From level 2 to level 1	From level 1 to level 2	From level 2 to level 1
TOTAL FINANCIAL ASSETS	0	0	0	0
TOTAL FINANCIAL LIABILITIES	0	0	0	0

LEVEL 3 RECONCILIATION

	30/06/2021								
(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss	**1,932**	**(52)**		**(67)**	**(637)**		**(3)**	**45**	**1,217**
- Debt securities	*135*	*(30)*		*(65)*	*(35)*		*(3)*		*2*
- Loans and advances	*1,789*	*(22)*		*(3)*	*(598)*			*45*	*1,211*
- Equity instruments	*7*				*(3)*				*5*
Trading derivatives	**2,058**	**(379)**					**(90)**	**42**	**1,632**
Hedging derivatives	**114**								**114**
Financial assets at fair value through other comprehensive income	**909**	**(2)**	**12**		**(103)**		**(23)**	**18**	**812**
- Debt securities	*23*						*(23)*		*0*
- Loans and advances	*881*	*(2)*	*12*		*(103)*			*18*	*807*
- Equity instruments	*5*								*5*
TOTAL FINANCIAL ASSETS	**5,013**	**(433)**	**12**	**(67)**	**(740)**	**0**	**(116)**	**106**	**3,774**
Trading derivatives	2,742	(456)				2	(98)	(31)	2,160
Hedging derivatives	11,103	(850)	(9)				(3)	(251)	9,991
TOTAL FINANCIAL LIABILITIES	**13,846**	**(1,306)**	**(9)**			**2**	**(101)**	**(282)**	**12,150**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR +105 million in result and to EUR +1 million recognised in Gains and losses directly recognised in Equity. On the liabilities side, they amount to EUR - 295 million recognised in result and EUR +13 million recognised in Gains and losses directly recognised in Equity.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

	30/06/2022									
(in EUR million)	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements (1)	Closing
Non-trading financial assets mandatorily at fair value through profit or loss	**920**	**(54)**		**1**	**(41)**	**(95)**			**8**	**740**
- Debt securities	*2*									*2*
- Loans and advances	*916*	*(53)*		*1*	*(41)*	*(94)*			*8*	*736*
- Equity instruments	*2*					*(1)*				*2*
Trading derivatives	**1,820**	**(555)**					**78**	**(189)**	**(15)**	**1,139**
Hedging derivatives	**73**	**(9)**								**64**
Financial assets at fair value through other comprehensive income	**703**		**(14)**	**2**	**(53)**	**(25)**	**1**		**4**	**617**
- Loans and advances	*698*		*(14)*	*2*	*(53)*	*(25)*	*1*		*4*	*613*
- Equity instruments	*5*									*5*
TOTAL FINANCIAL ASSETS	**3,516**	**(617)**	**(14)**	**3**	**(94)**	**(120)**	**78**	**(189)**	**(3)**	**2,560**
Trading derivatives	2,406	(1,015)					188	(252)	9	1,337
Hedging derivatives	10,508	(3,980)	2				5	(10)	(196)	6,329
TOTAL FINANCIAL LIABILITIES	**12,914**	**(4,994)**	**2**				**193**	**(261)**	**(187)**	**7,666**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -3 million in result.On the liabilities side, they amount to EUR - 217 million recognised in result and EUR +30 million recognised in Gains and losses directly recognised in Equity.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date. They depend on the liquidity and on the observability of market parameters.

SENSITIVITY OF THE FAIR VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS TO REASONABLY POSSIBLE ALTERNATIVE ASSUMPTIONS

Dexia Crédit Local measures the fair value of the level 3 financial instruments using some unobservable inputs. As this unobservable character injects a certain degree of uncertainty into the valuation, an analysis of the fair value sensitivity of Level 3 instruments to alternative assumptions was performed as at 30th June 2022. The sensitivity analysis has been conducted using reasonably possible inputs or applying assumptions in line with the valuation adjustment policies for the financial instruments in question.

The tables hereunder summarize the financial assets and liabilities classified as Level 3 for which alternative assumptions in one or more unobservable inputs would lead to a significant variation in fair value.

30/06/2021

Financial instruments	Non observables inputs	Alternative assumptions		Impacts on fair value measurement	
		Worst case	Best case	Worst case (in EUR million)	Best case (in EUR million)
Bonds	Credit spread	+ / - one standard deviation		(0.5)	0.5
Loans	Credit spread	580 bps	50 bps	(285.7)	124.3
CDS	Credit spread	+ / - one standard deviation		(16.1)	11.5
Derivatives	Interest Rate	+ / - one standard deviation		(8.2)	8.2
	Spread of CBS	+ / - one standard deviation		(3.1)	3.1
	Inflation	+ / - one standard deviation		(0.2)	0.2
TOTAL				**(313.8)**	**147.8**

30/06/2022

Financial instruments	Non observables inputs	Alternative assumptions		Impacts on fair value measurement	
		Worst case	Best case	Worst case (in EUR million)	Best case (in EUR million)
Bonds	Credit spread	+ / - one standard deviation		(0.0025)	0.0025
Loans	Credit spread	605 bps	80 bps	(159.1)	94.3
CDS	Credit spread	+ / - one standard deviation		(21.7)	13.8
Derivatives	Interest Rate	+ / - one standard deviation		(2.5)	2.5
	Spread of CBS	+ / - one standard deviation		(5.0)	5.0
	Inflation	+ / - one standard deviation		(0.2)	0.2
TOTAL				**(188.4)**	**115.7**

The unobservable input in the valuation of bonds and credit default swaps (CDS) classified in level 3 is the credit spread. The alternative assumptions used to measure the fair value sensitivity of those financial instruments are based on the dispersion of the spreads used for their valorisation, and consist of applying a shock of +/- one standard deviation to the credit spreads. The sensitivity of the bonds' fair value is estimated to range from -2,500 EUR (reflecting a deterioration in the above-mentioned inputs) to +2,500 EUR (reflecting an improvement in the above-mentioned inputs), while the sensitivity of the CDS' fair value is estimated to range from EUR -21.7 million EUR in the adverse scenario to EUR +13.8 million in the favorable scenario. As of 30/06/2021, the sensitivity of the bonds' fair value was estimated to range from -0.5 million EUR to +0.5 million EUR, and that of the CDS' fair value was estimated to range from -16.1 million EUR to +11.5 million EUR.

For the loans classified in level 3, the alternative assumptions consist in using the minimum and maximum spreads observed when valuating similar assets by Dexia Crédit Local. The impact of those alternative assumptions is estimated to EUR -159.1 million for the worst case scenario and to EUR +94.3 million for the best case scenario (vs. -285.7 million EUR and +124.3 million EUR respectively, as of 30/06/2021).

For level 3 derivatives, the unobservable market inputs are mainly the interest rate, the inflation and the currency basis spreads (CBS). The alternative assumptions used by Dexia Crédit Local are based on the dispersion of available market data by risk factor and pillar. The sensitivity of each derivative is then determined for a variation of +/- one standard deviation in these inputs. The total impact on the fair value is estimated to range between EUR -7.6 million for the worst case scenario and EUR +7.6 million for the best case scenario (vs. -11.5 million EUR and +11.5 million EUR respectively, as of 30/06/2021).

NOTE V. RELATED PARTY TRANSACTIONS

We refer to the note 4.4. Related party transactions of the Dexia Crédit Local's annual report 2021.

CERTIFICATE FROM THE RESPONSIBLE PERSON

I the undersigned, Pierre Crevits, Chief Executive Officer of Dexia Crédit Local,

hereby declare that, to the best of my knowledge, the condensed consolidated financial statements for the past half year have been prepared in accordance with all applicable accounting standards and provide a true and fair view of the assets, financial position and earnings of all the companies included in the consolidation, and that the interim business report presents an accurate account of all significant events that have taken place during the first six months of the year and their impact on the financial statements, and of all the main risks and uncertainties concerning the remaining six months of the financial year.

The half-year financial information presented in this report is covered by an audit report prepared by the statutory auditors. Based on their review, nothing has come to the statutory auditors' attention that causes them to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by the European Union applicable to interim financial information.

La Défense, 29 September 2022

Pierre Crevits
Chief Executive Officer

STATUTORY AUDITORS' REPORT ON THE HALF-YEAR CONSOLIDATED FINANCIAL INFORMATION

PERIOD FROM JANUARY 1ST 2022 TO JUNE 30TH 2022

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting and in accordance with the requirements of article L. 451-1-2-III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Dexia Crédit Local, for the period from January 1st, 2022 to June 30th, 2022,
- the verification of the information presented in the half-yearly management report,

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France.

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the note I.1 to the condensed half-yearly consolidated financial statements, indicating that these financial statements have been prepared on a going concern basis, in accordance with IAS 1.

Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Paris La Défense, September 12th, 2022,

The statutory auditors
French original signed by

Mazars	Deloitte & Associés
Laurence Karagulian	Charlotte Vandeputte
Virginie Chauvin	

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Dexia Crédit Local's Financial Report H1 2022 has been published
by the Communication department.
This report is also available in French. In case of discrepancy between the English and the
French versions, the text of the French version shall prevail.